

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF KENTUCKY-AMERICAN)	
WATER COMPANY FOR AN ADJUSTMENT)	CASE NO. 92-452
OF RATES)	

O R D E R

On May 20, 1993, the Attorney General's office, Utility and Rate Intervention Division and the Lexington-Fayette Urban County Government filed a joint motion requesting the Commission to compel Kentucky-American Water Company ("Kentucky-American") to respond to the movants' initial data request Item 370 and supplemental data request Item 104 relating to cash working capital and supplemental data request Item 105 relating to future earnings. The movants further request that, in the event their motion to compel is not granted, the Commission strike Kentucky-American witness Grubb's testimony at pages 10-19, questions 15-27, and witness Edens' testimony at pages 2-4, questions 10-11. The movants also request that their motion be ruled on without a hearing. Kentucky-American filed a response in opposition to the motion on May 27, 1993.

The first issue addressed in the motion to compel is the request for Kentucky-American to prepare a calculation of its cash working capital requirements by utilizing a balance sheet methodology. Such a methodology was not utilized by Kentucky-American in this case or prior rate cases. However, in prior Kentucky-American rate cases the balance sheet methodology has been

presented by witnesses sponsored by the movants. As noted in Kentucky-American's response, the Commission has historically accepted Kentucky-American's utilization of either a lead/lag study or a formula approach to the calculation of cash working capital and rejected the utilization of the balance sheet approach. The movants' judicial appeals on this issue have also been rejected by the Franklin Circuit Court.

The movants assert that cash working capital is a complex issue and they are unable to test the qualifications and credibility of Kentucky-American's witness absent the study that he has been requested to perform. Movants further argue that the witness should not be permitted to assert his knowledge of the balance sheet methodology without having to demonstrate that knowledge by performing the requested study.

Kentucky-American responds by noting that it has provided all the information necessary to perform a balance sheet analysis but since this methodology was not being proposed by Kentucky-American it should not be required to perform the analysis. Kentucky-American also cites to the disclosure in movants' data requests that their expert witness in this case is the same individual who prepared and presented their balance sheet analyses in prior Kentucky-American rate cases.

Based on a review of the record, the Commission finds that Kentucky-American should not be required to perform a balance sheet analysis of its cash working capital requirements in this case. Kentucky-American's application is based on a lead/lag study, not

a balance sheet analysis. The Commission has traditionally rejected a balance sheet analysis in favor of either a lead/lag study or a formula computation, and those decisions have been affirmed on appeal. We find no merit in the movants' assertion that absent the requested analysis they are unable to test the witness's qualifications and credibility. The witness's education, training, and experience all impact his qualifications and credibility. Movants will be afforded an ample opportunity at the June 30, 1993 hearing to examine these factors as well as the witness's knowledge of all recognized methodologies for calculating cash working capital. The movants' companion motion to strike the testimony on cash working capital will be deferred to the conclusion of the hearing.

The other issue raised by the motion arises from the movants' second data request, Item 105, which asked Kentucky-American whether it would voluntarily refund excess earnings if its earnings exceed the level authorized by the Commission. The movants claim they are entitled to a "yes" or "no" response, with Kentucky-American being entitled to explain its answer. The response provided by Kentucky-American was an explanation that did not include either the word "yes" or "no." Although movants state that this information is relevant, they provide no discussion or explanation to demonstrate its relevancy.

Kentucky-American's response states that it is entitled to a reasonable opportunity to earn a fair return, and a fair return is not a specific point but a range around the Commission's authorized

return. Further, Kentucky-American states that the Commission is statutorily empowered to initiate a rate investigation if it believes that a utility's earned return is excessive.

Based on a review of Kentucky-American's response to the movants' data request, as supplemented by the response to the pending motion, the Commission finds that Kentucky-American's responses amount to a "no." Having been presented with no persuasive argument why Kentucky-American should not respond with a "yes" or a "no," we will order Kentucky-American to so respond.

IT IS THEREFORE ORDERED that:

1. The motion to compel responses to data requests relating to cash working capital be and it hereby is denied.

2. The motion to compel responses to data requests relating to future earnings be and it hereby is granted to the extent that Kentucky-American shall file within 7 days of the date of this Order a response of either "yes" or "no" accompanied by any explanation it deems appropriate.

Done at Frankfort, Kentucky, this 7th day of June, 1993.

PUBLIC SERVICE COMMISSION


For the Commission

ATTEST:


Executive Director